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NATIONAL SECURITY IMPLICATIONS OF THE EUROPEAN-SOVIET TRADE IN NATURAL GAS

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Introduction

No question of national security can be properly addressed without first placing it in a context of global competition. The superpower rivalry between the United States and the Soviet Union continues to dominate the foreign policy and national security agendas of both countries. Further, an examination of the national security implications of the European-Soviet trade in natural gas must begin with a review of the objectives of Soviet foreign policy.

I believe that Soviet foreign policy in the next five to ten years will remain focused on achieving recognition of the Soviets' global political and strategic equality with the United States and altering the geopolitical equilibrium in Moscow's favor. The Soviets will persist in their dual strategy of waging controlled cold war against the U.S. while at the same time promoting selective detente with Western Europe.

I also believe that Western Europe will move toward more independent policies aimed at avoiding the repercussions of Soviet-American rivalry and arranging accommodations with Moscow to increase its access to markets and resources in the Soviet Union and Eastern Europe. In the next ten years, Western Europe's economic vulnerabilities will push these governments toward accommodations with Moscow. Such arrangements, both political and economic, will be perceived as a prerequisite to gaining expanded access to Soviet and East European markets. This thrust will be greatly magnified if protectionist measures by the European Community, the United States, and Japan set off a damaging trade war. Therefore, domestic, economic, and political imperatives may strengthen political incentives to deal more closely with the Soviets on economic matters.

Soviet Energy Policy and the Pipeline Case

At the Twenty-sixth Communist Party Congress in February 1981, then President Leonid Brezhnev spoke of the opening of western Siberian gas resources and their transmission to the European border of the Soviet Union as the centerpiece of Moscow's energy program to 1990. At that time Brezhnev stated: "The accelerated development and exploitation of Siberian gas resources is a matter of highest economic and political priority." The 1980 Soviet five-year plan specified a shift in emphasis from oil to gas in the energy resources mix by projecting a significant rise in gas production from 435 billion cubic

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meters in 1980 to 600 to 640 billion cubic meters in 1985. Within the past several years, Soviet figures have described the peaking of Soviet oil output at approximately 620 to 645 million tons, or only marginally more than the 603 million tons produced in 1980. The crucial point is that the Soviets shifted their planning and operational efforts to a focus on gas, rather than oil, as the major energy resource in the early 1980s.

This shift in emphasis to natural gas brought the question of U.S. national security interests to light during 1979-1981. In the early to mid-1970s interest was aroused in the West over the Soviets' intentions to build some of the world's largest natural gas transmission systems, which could possibly supply energy to parts of Western Europe. As early as 1978, the focus of attention was on the Urengoi-Yamburg project, popularly known in the U.S. as the "Soviet pipeline case." This project drew wider attention from the Allies when the Soviet Union and the Federal Republic of Germany signed a 25-year economic cooperation agreement. At this time the Kremlin was actively promoting large-scale compensation deals, such as Urengoi-Yamburg, which would not only provide the Soviets with large-scale foreign currency earnings but would also lead to the acquisition of advanced Western oil and gas technology. The Urengoi-Yamburg pipeline was projected to supply from 40 to 70 billion cubic meters of natural gas a year to ten European nations—West Germany, France, Italy, Austria, Finland, Belgium, the Netherlands, Sweden, Switzerland, and Greece. Estimates indicate that by 1990 the Soviet Union could be supplying up to 35 percent of Western Europe's gas requirements through the Urengoi-Yamburg and other supply lines. (See Table 1.)

Soviet Natural Gas Exports to Western Europe
(billions of cubic meters per year)

| | Volume in 1980 | % of total consumption | Volume in 1990 | % of total consumption |
|--|-------------------|---------------------------|-------------------|---------------------------|
| Austria | 2.9 | 55% | 4.4 | 65% |
| West Germany (including West Berlin) | 10.7 | 20% | 21.9 | 33% |
| Italy | 7.0 | 22% | 15.0 | 34% |
| France | 4.0 | 10% | 12.0 | 30% |
| Switzerland | — | — | 0.9 | — |
| Total | 24.6 | | 54.2 | |

Source: Stern, *International Gas Trade in Europe*.

It must be pointed out that throughout most of Europe, governments moved in the late 1970s and early 1980s to emphasize increased natural gas use as opposed to oil. This policy trend was a direct result of the Middle East oil crisis of the 1970s and resulting fears of energy shortfalls if too much reliance

was placed on oil as the key component in the energy mix. Official government estimates indicate that gas consumption from 1980-1990 in Italy will increase from 25 billion cubic meters to approximately 45 billion cubic meters, in the Federal Republic of Germany from 60 billion cubic meters to about 80 billion cubic meters, and in France from less than 20 billion cubic meters to 45 to 50 billion cubic meters. It is currently projected that the Soviet Union will replace the Netherlands as West Germany's major gas supplier by 1990. West Germany appears particularly vulnerable in this natural gas situation because some regions of Germany are more than 50 percent dependent upon Soviet natural gas and will become increasingly reliant on Soviet gas by 1990. Estimated figures indicate that in 1984 Soviet gas production increased 10 percent over 1983 and will rise approximately 8 percent in 1985. At this time, construction on the radiating pipelines from the Urengoi and Yamburg deposits is on schedule, and work on the Siberia-West Europe export gas line is on track. Current estimates place the cost of the Siberia-West Europe export gas line at \$34 billion.

The reaction to the shift in Soviet energy policy toward greater emphasis on natural gas and the United States-West European confrontation over the pipeline case has been interesting. From the standpoint of U.S. government reaction, a variety of signals were sent as a result of different administrations participating in the episode involving the pipeline case and other crucial United States-Soviet strategic trade cases. The goal of the Nixon administration in the late 1960s and early 1970s was to foster closer relationships with the Soviets and to build detente. Trade and economic interlocking relations were a cornerstone of this policy. This policy was basically continued through the Ford administration. The 1973 oil embargo, however, stunned the Western world and drove the Europeans to consider alternative energy sources, including the Soviets. The U.S. government voiced no official disapproval of these considerations since the policy was to foster closer economic and trade ties. As the Carter administration wrestled with the problems of the Soviet invasion of Afghanistan, the U.S. placed an embargo on grain shipments to the Soviets in January 1980. When Ronald Reagan took office, the embargo was terminated. Then, the situation in Poland gave rise to the problems associated with the pipeline case, and the Reagan administration decided to oppose Western participation in the pipeline project. By the time the Reagan administration decided to oppose Western participation, most European governments and private consortiums had made commitments or were in the final stages of making commitments on equipment or financing relating to the Urengoi-Yamburg pipeline case.

An important question to be asked is why awareness was not raised on this case long before it became a *fait accompli*? (I have never heard a coherent and reasonable response to this question.) The Allies' reaction to the attempted blockage of business on the pipeline case by the United States government can only be classified as outraged and miffed. The response by the bulk of the U.S. private sector can clearly be classified as anger and hostility. Memories linger and these ill feelings have left strong animosities between the U.S. private

sector and the U.S. government in the technology transfer of national security concerns. The basic position of the current administration has been that advanced technology, including certain gas technology, should be kept from the Soviets. This position held throughout the early years of the Reagan administration, but has clearly shown signs of cracking within the past year. Many observers believe that the current administration's position on the pipeline case resulted in the Allies viewing the U.S. government as strong and tough on these issues. In one way this is true. On the other hand, the Europeans saw inconsistencies in the various administrations and drew the conclusion that "waffling" had become a permanent characteristic of U.S. foreign policy and national security matters and that dealing with the U.S. on East-West trade was next to impossible.

National Security Implications

In the remainder of the 1980s and through the 1990s it will be imperative that U.S. foreign policy and national security decision makers view East-West economic relations in a security context. The U.S. has reached the point where a major focus must be on the power triangle of national security, world competition, and technology. The evolution of Soviet energy policy and the linkage into Western European nations raises the issue of potential economic leverage and requires a new framework for assessments of the economic ties between East and West. A long-term goal of Soviet foreign and domestic policy has been to achieve a condition of perceived strategic parity as well as actual strategic parity with the United States to persuade other governments that the Soviet Union is a power equal to the United States.

The U.S. must operate on the assumption that with approximate strategic parity, the ability to control vital resources could be decisive in determining the outcome of a variety of important political and military contests between the Soviet Union and the United States. As Western Europe increases its dependence on Soviet gas supplies, one can easily imagine circumstances in which Soviet leaders could manipulate the Soviet-Western European energy relationship for Soviet advantage. The Soviets have used energy supply disruption in the past in East Europe for clear political leverage at critical times.

I believe specific national security implications of European-Soviet trade in natural gas include a growing European dependency on Soviet energy resources, specifically natural gas. This leads to splits in the relationship between the U.S. and its Allies on political and military matters. These governments will feel compelled to moderate their political and military positions about the North Atlantic Treaty Organization and other matters because their domestic constituencies demand smoother relations with the Soviets to ensure energy for their homes and factories. This is classic economic leverage in an effective but subtle form. Moreover, as this energy relationship matures, those industries, banks, and West European governments involved in government subsidy and loan arrangements with the Soviets on gas projects will face financial vulnerability. This vulnerability will cause money to become a major political element in domestic considerations.

Second, it is doubtful that the Soviets will alter their political and military policies as a result of the growing energy ties with Western Europe. The Soviets' increased trade with Western Europe has not lessened political and military conflict. In addition, the hard currency earned by the Soviets from natural gas trade between themselves and the West Europeans will finance projects harmful to the U.S. and to Western Europe. With the major gas lines in operation, it is estimated that from \$5 to \$15 billion in revenue will flow to Soviet coffers. One must presume that a major portion of this revenue will go to finance Soviet military expansion.

Third, if a major international crisis arose involving the Soviets and the U.S., the U.S. would have to consider a possible Soviet cutoff of natural gas to the Europeans, or the use of this threat by the Soviets to blackmail the Europeans. Natural gas pipelines create dependencies because the existing facilities are tied into an elaborate network of delivery and distribution facilities. As natural gas becomes available, many homes and industries in Europe will lack substitutes such as oil or coal. No spot markets exist that can respond to short-term requirements; no alternative exists to fixed and long-term supply arrangements through operational pipelines. Further, from a commercial viewpoint, a capital project similar to the Soviet energy pipelines, coupled with long-term supply agreements in the European markets, negates investments in safer Western energy sources. With these long-term arrangements between the Soviets and West European governments, little capital will flow into energy alternatives in Western Europe. Clearly then, the Soviets have displaced investment in more reliable Western energy development.

Finally, as the link between the Soviets and the Europeans grows in the natural gas trade, this improves the capability of the Soviets to portray themselves as reliable commercial energy partners who deal solely on a commercial basis. This, however, is not the case. The Soviets are draining Afghanistan of natural gas and deducting the "cost" from the large and growing debt owed by Afghanistan to the Soviets for military assistance. The Soviets are receiving oil from Middle East nations in repayment for weapons and reselling this oil to Third World countries in need of it to maintain political and military influence. The Soviets are diligently working to topple governments such as those in South Africa, which have strategic minerals vital to Western commerce. Moreover, the Soviets are building a web of energy dependencies for commercial and political gain. Unfortunately for the U.S., the commercial and political gains will be used to bolster Soviet military strength.

Conclusion

The development of the Soviet-European trade in natural gas is a serious national security threat to the United States. This trade will evolve into a formidable obstacle to United States-European political relations. As the vulnerabilities of European economies grow in the next ten years, the Soviets will have a significant opportunity to use the natural gas trade to pressure European governments on fundamental strategic issues. The U.S. should count

on the Soviets to use this trade to push the Europeans farther away from U.S. influence. It is imperative that U.S. decision makers begin to recognize and understand the relationship between national security and international economic and resource issues. The U.S. must deal with these issues as inter-related and not as separate problems.